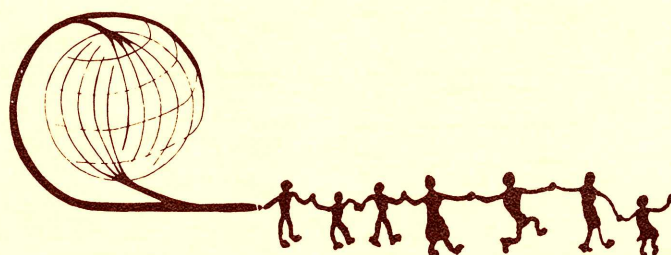


BALANCING THE ECONOMY

BY

REVITALIZING THE THIRD SECTOR



**A Proposal to establish
an agency for**

CO-OPERATIVE AND COMMUNITY DEVELOPMENT

Ottawa
February 1982

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For Further Information
call Tom Webb
776-3976
238-4644
CHF
56 Sparks Street, Suite 401
Ottawa K1P 5A9

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INTRODUCTION

- 1.1 The object of this document is to propose to government a program response to: the need for assistance to community groups engaged in socio-economic development; the need of the federal government to have a vehicle for enhancing its ability to reach people in their day-to-day lives; the need for a strengthening of the third sector community institutions in order to increase economic stability and reduce dependence; the need to enhance economic democracy.
- 1.2 The nature of community based socio-economic development requires a unique program which is responsive to local needs and requests rather than central planning of local action. Programs and policies need to be supportive of a climate in which community initiatives can prosper; provide flexible financial support which responds to varied local needs and aspirations; foster the belief of local communities that the central government supports and encourages local and community controlled initiatives.
- 1.3 The proposed elements of the program are designed to meet real development problems experienced by local groups and businesses within an agency of Community and Co-operative Development which would include:
 - (a) A Co-operative Development Agency.
 - (b) A Community Development Corporation support program.
 - (c) A Community and Co-operative Marketing Agency.
 - (d) Community Co-operative Development Banks.
 - (e) Joint programs with other federal departments.
 - (f) Support for Community Based Research and Development Centres.
 - (g) A program to support research related to community controlled economic development and small scale development models.

BACKGROUND

- 2.1 Community and co-operative development have and are experiencing a surge in Canada. The co-operative movement is growing in new areas (co-op garages, fuel co-ops, Co-Enerco) and is experiencing new growth in traditional areas (housing, food and producer co-ops). At the same time, a number of community efforts which grew out of L.I.P. and other government programs and from adversity and dramatic events such as plant closings, have spawned community based integrated development organizations which aim at balanced socio-economic development. These corporations create jobs, meet social needs and support cultural development. They are "profit" oriented but generate community profit rather than personal profit.

- 2.2 The successes of alternative Co-operative models in Europe have been encouraging. The formidable accomplishments of the integrated worker co-operative network centred around the village of Mondragon in Spain are impressive indeed. This system of industrial co-operatives, manufacturing a wide range of products from consumer durables to fabricated metal products now has more than 90 enterprises and 20,000 worker owners. It is supported by a net of secondary co-operatives including a co-operative bank, a research and development institute, a worker benefits co-operative, several schools and housing co-operatives.
- 2.3 A parallel development is taking place in terms of increased interest in small human scale but sophisticated technologies. A significant part of this phenomena is linked to the development of "high tech" micro-computers and electronics breakthroughs which offer scope for decentralization of the important knowledge sector of the economy and a marked reduction in efficient production runs.
- 2.4 Another compatible set of developments are centered around renewable and energy conservation technologies and somewhat related production innovations which tend toward less energy intensive technologies which are less environmentally destructive.
- 2.5 At the same time a number of government departments including departments as diverse as Health and Welfare and Energy, Mines and Resources, DREE and Secretary of State, C.E.I.C. and the Solicitor General, and Indian Affairs and Northern Development and Labour Canada have been involved in or are developing programs with a community based component. Some programs like L.I.P. and L.E.A.P., C.E.S. and Welfare Grants have served as a training ground from which leaders of community based corporations have developed. Some programs have been successful at tapping and enhancing community energy, drive and ideas and others have diminished and limited community efforts.
- 2.6 Community based and co-operative enterprises have a number of common and compatible features:
 - (a) They are owned and controlled within the community in which they exist.
 - (b) The profits they generate stay within the community and tend to be spent and re-invested in the community.
 - (c) They are stable and committed to the community. They do not sell out to non-community interests. When the going gets rough they dig in and fight to survive. They are not stopped by economic hard times but continue to meet community needs.
 - (d) They are responsive to community pressure because they are completely part of their communities.
 - (e) Citizen involvement or economic democracy is valued and maximized.

- (f) They are democratically run.

2.7 Additionally, community based development corporations tend strongly to:

- (a) See development as an integrated process with economic, social and cultural aspects which cannot be satisfactorily dealt with in isolation.
- (b) View development as a long-term process rather than short-term ad hoc unplanned efforts. (There are no panaceas.)
- (c) Believe that dependence and alienation are expensive in the long run and that much standard economic development produces external costs which are high, long-term and often hidden. (Examples: pollution, high mobility, social dislocation, demeaning jobs.)
- (d) See the need for creating links with other local institutions and involving them in the development process.

2.8 Co-operatives:

- (a) Encourage the co-operative, mutual aid aspects of human nature.
- (b) Believe that co-operative effort is less wasteful of resources than competitive efforts.
- (c) Endeavour to ensure equitable distribution of the production of human work.
- (d) Support acceptance by members of responsibility for one another.
- (e) Educate their members on an ongoing basis in order to develop the individual within the context of his relationships and further the co-operative form of enterprise.
- (f) Have membership open to all.

2.9 We have traditionally seen the economy as composed of the private and public sectors and regarded the remainder as unimportant. The third sector, composed of domestic, community and voluntary activities has only recently received much attention. The importance of this sector is being increasingly understood while at the same time powerful forces have undermined and weakened the third sector over the past fifty years. The third sector's decline has been linked with:

- Increased pressure on the family and disintegration of family and community in society. The result of this disintegration has been dramatically increased public sector costs.
- Increased dependency and alienation among Canadians as they have less and less control over an increasingly centralized economic system. This leads to increased demands for public sector services.

- 2.10 An overly centralized economic system has evolved. We are only now beginning to understand many of the consequences of this excessive centralization. Our ability to analyse the economy and view development meaningfully have suffered as we focussed on the narrow benefits of centralism. "We settled merely for economic growth not comprehensive economic development. Pursuing this narrower vision we have had to deal with the adverse spill-over effects" (Jacques Gerin, Senior A.D.M., Environment Canada).
- 2.11 Over the past 50 years there has been great growth in the private and public sectors. As the economy became more centralized the voluntary, community and co-operative sectors became increasingly compressed and found it increasingly difficult to function. Many tasks became insupportable at the community level and fell to government to perform. The time has now come to shape a new balance between the three economic sectors -- a balance in which a revitalized third sector leads to a healthier society.
- 2.12 A firm move toward strengthening the third sector would have wide-ranging economic impacts. Among them would be increased tendencies toward:
- The encouragement of small sized enterprises and the resulting reduction of unemployment.
 - Increased self-reliance and a lowering of dependency and alienation.
 - Use of scientific knowledge to develop technologies which enhance human dignity rather than degrade it.
 - Canadian leadership in the field of interactive communication technology and systems.
 - Increasing community and family stability thereby reducing social costs.
 - Bringing economic decision-making and its ultimate consequences closer together.
 - Encouraging integrated economic development which can best be pursued at the local level.
 - Favouring the growth of secure energy supplies based upon small scale but sophisticated renewable and conservation technologies. Such a development will act as a needed balance to centralized domestic sources.
 - Developing opportunities for small scale, short production run manufacture and fabrication made increasingly possible by micro-computers.

2.13 One of the problems of development has been the difficulty of small size and community based enterprises to bring together the basic elements needed to fuel successful development. A responsive agency for Community and Co-operative Development could bring those elements together at a level where delivery is possible. Those basic elements of development are:

- Sources of venture capital close to the enterprise and dedicated to small scale projects.
- Financial expertise needed to handle funds and debts in the start up phase.
- Marketing expertise needed to access markets which are often vertically integrated, centralized and complex.
- Technological expertise needed to find, assess and adapt existing technology and develop new technologies when necessary.
- Networking knowledge of what has been tried already by others and their problems and experiences.
- Legal expertise to avoid breaking the law and ensure the most favourable legal structure for meeting goals.
- Planning and management expertise.
- Start up core funding for co-operative and community development institutions.
- Public sector expertise to facilitate access to and use of regular government programs.

PROGRAM ELEMENTS

3.1 The proposed program elements are structured to generally meet the needs growing out of the particular nature of Co-operatives and Community Development Corporations. They are also geared to provide the basic elements needed for development.

3.2 Co-operative Development Agency. This would be a decentralized agency developed with the co-operative movement to encourage and foster the growth of worker, producer and consumer co-operatives and provide them with the basic elements of development (2.11). It would as well monitor innovative co-operative institutions and disseminate information to emerging and established co-operatives. Funding could be shared between the co-op movement and government.

- 3.3 Community Economic Development Program. This program would provide the elements of development (2.11) to community based economic development institutions. It could take the form of a branch of the agency or be a separate agency answering to the department.
- 3.4 Community and Co-operative Marketing Agency. The department would foster the creation of a marketing mechanism serving small producers from the community, co-operative and private sectors who experience marketing difficulties. The agency would also promote trade at the international level between co-operatives in the third world and Canadian co-operatives. The department would consider various organizational options for the agency including an independent regional operation, attachment to the Community and Co-operative Development Banks or attachment to the Co-operative Development Agency.
- 3.5 Community Co-operative Development Banks. The objective would be to work with the co-op and credit union movements to create a network of Community Co-operative Development Banks linked regionally and federally which would be funded by government and established co-ops, credit unions and community development corporations. Government contributions could be grants or could be recoverable in whole or in part. The United States' experience would prove helpful. The essential part of this program element is the creation of a suitable decentralized financial institution to serve co-operative and community development.
- 3.6 Joint Federal Programming. The Department would use funds to develop joint programs with other federal departments of benefit to co-operative and community enterprise. In some cases new programs or special programs would be developed. In other cases existing programs would be modified. This approach would allow the department to influence all federal programs without creating a new central agency role.

The allocation of over 75% of the agency budget to joint programs (Annex I) would spread the government/third sector relationship over a number of departments and thus lessen the danger of a dependency relationship between community and co-operative enterprises and the Community and Co-operative Development Agency. The joint funding program would also be flexible enough to allow for local, regional or national scale innovations.

- 3.7 Community Based Research and Development Centres. The department could foster the creation of a network of small local research centres dedicated to the provision of technological information to co-operative, community and small private enterprises. The centres would also do research and development to modify existing technology and develop new technology to increase the efficiency and effectiveness of small scale enterprises. The centres would be linked to existing community institutions such as universities, vocational schools and schools of applied technology. The centres would also be linked to each other through an existing institution such as the N.R.C. At the community level, the centres would be directed by community boards providing links to co-operative and community based enterprise, farmers and small business, municipalities, educational institutions, unions, etc.

- 3.8 A Socio-Economic Research Program on Community Based Development. A branch of the agency could develop expertise in the field and support research across the country at an appropriate level. A portion of federal funds to higher education could be utilized to increase our knowledge of social and scientific obstacles and opportunities for community-based development.

THE CHARACTERISTICS OF THE AGENCY'S PROGRAMS.

- 4.1 Enabling or Climate Creating. Since the objective of supporting community based development is for people and communities to become masters of their own destinies, it is necessary that each element of the program be geared not to doing things for people or making decisions for them but rather ensuring that they have the resources to do things for themselves. Rather than centralized planning of how communities should develop and evolve, the Agency would seek to support the planning of local community and co-operative groups.
- 4.2 Integrated Development Promotion. At the local level realistic and practical links can be made between the economic, social and cultural facets of development. Such integrated development at the local level cannot be forced but it can be encouraged and supported.
- 4.3 Community Control. Community institutions, be they co-operatives or community development corporations, must be set up so that control remains in community hands.
- 4.4 Support programs need to be comprehensive. It is not sufficient just to provide venture capital, for example. All of the basic development needs (2.11) have to be met.
- 4.5 Programs need to support local institutions and local institutional networks. The result of the program should be encouragement of a network of mutually supportive local institutions involved in the development process (fishermen's groups, neighbourhood and community associations, local schools, local research institutes, unions, churches, farmers, etc.).
- 4.6 Support programs need to be long-term. After sixty years of weakening, community institutions will not flourish overnight. There are no short term panaceas.
- 4.7 Inter-community co-operation must be encouraged by the program. Community development projects have, in some cases, become involved in foreign aid programs. Such "outward looking" will reduce isolationism and competitiveness between communities.
- 4.9 The programming should aim at creating self-supporting institutions. Each project or local development should plan at some point in its future to be free from government support.

- 4.10 The program should respond to a reasonable level of local dollar commitment. Local commitment will foster maximum local effort. The community must have a stake in its own development.
- 4.11 The program must be flexible. There is no one co-op or community development corporation model. Programs must be flexible also in the sense that they can respond quickly and with minimum red tape. This will require central agency flexibility and special central agency arrangements.
- 4.12 The program must expect local groups to make mistakes. Ministers have to be prepared to live with a certain level of mistakes as a price for learning. In some cases the same group might be supported again.
- 4.13 Federal involvement with community groups is essential if the national economic climate and trade are to be conducive to community controlled enterprise. Without national level involvement and commitment, powerful tendencies toward further centralization may well prevail without the development of a balancing third sector.

THE CHOICE OF A VEHICLE

- 5.1 Two basic options exist for the creation of a vehicle to carry the programs outlined above: a department or a crown corporation. The options both carry some problems in terms of operating within the program criteria and the diversity of program approaches outlined above. A special variation of either a department or a crown corporation may be necessary.
- 5.2 A crown corporation would possess the necessary flexibility but it would: have difficulty entering into joint programs with other federal departments; be seen as a very detached federal presence; not have full policy direction from the political level nor engage the political level in public policy issues centered around community based development. It would, in short, be a response which would not be part of the public policy mainstream of Canadian life.
- 5.3 A department would lack flexibility. The demands of central agencies and the processes of regular department status would pose great problems in working out innovative mechanisms for the accountability of government spending and dampen the flexibility of the agency to respond to the diversity of community response across the country.
- 5.4 Careful consideration should be given therefore as to how one would modify either the crown corporation or the departmental format. Innovative solutions should be looked at, such as making a minister the chairman of the board in a crown corporation approach or creating a department "unlike the others" in order to enhance its flexibility.

- 5.5 The development of a "responsive" department through a central planning mode would seem most inappropriate. A balance between the need to centrally plan and the need for grassroots involvement from the community and co-operative sectors is necessary. The appointment of a minister with a flexible set of terms of reference for creating an appropriate vehicle in consultation with the community and co-operative sectors would be a sound method of proceeding.

FEDERAL-PROVINCIAL CONSIDERATIONS

- 6.1 The federal level has been slowly losing its ability to deal directly with people in ways which affect their daily lives. Many federal programs and a large percent of federal spending is directed to citizens indirectly through provincial programs. The federal level has tended more and more to be easily able to involve itself only in "mega projects" which, while they may be worthwhile, are often seen as increasing the wealth and strength of the rich and powerful. The provinces have on the other hand benefited through their greater balance of programs which affect people's lives and help them in tangible ways.
- 6.2 While dealing with municipalities directly may be direct federal interference in provincial affairs, community and co-operative groups are not creatures of the provinces. Indeed the agency is necessary in order to rationalize the federal policies which already affect them. There might be some level of provincial displeasure, however this would be likely with any federal initiative which would so directly affect people's day-to-day lives.
- 6.3 It is important that as the proposal is developed the relationship to all levels of government are understood. A suitable formal and/or informal mechanism needs to be developed to ensure as great as possible a harmony with municipal and provincial programs and policies.

FINANCIAL CONSIDERATIONS

- 7.1 A fully developed agency would probably need a budget of some seven to eight hundred million dollars. For the most part the program thrusts outlined above would need short- to medium-term support in order to become self-supporting. Some, such as the Community Co-operative Development Bank, could become independent sooner rather than later and might need low levels of on-going support only if services to some very poor areas were to be kept at a high level. Others, such as the development of local research and development centres would take a longer time to become independent. Finally, joint programming would require on-going funding at a constant dollar level of five to six hundred million dollars per year to be effective. The level of joint program funding would need to be periodically reviewed in order to ensure that it was meeting its goals in terms of having a real and positive influence upon departments.

- 7.2 The projected budget for the agency rises from 10.5 million in the first year to 894. million by year 10. (See Annex I) This projection is based upon an assumption of inflation at 10%. In dollars this means that the eventual budget level would be about 380 million in constant 1981 dollars. In program terms this means that about 300 million per year constant dollars would be targeted to influence the spending of other departments to reflect government support for the third sector and 80 million per year for development agency support and planning and administration. Given the crucial economic importance of the third sector and the level of private sector support programs this is a minimal level of support which ought to be reassessed as the agency develops and the analysis of need is refined.
- 7.3 Projected spending in support of development agencies is of two types: on going and phased out. Support for the Co-operative and Community Development Bank would end after six years with a total input of \$75 million. The Co-operative Development and Co-operative and Community Marketing Agencies would continue funding indefinitely but funding levels would drop in constant dollars after year six as no inflationary increases were budgeted. Inflation offsetting increases would be allocated for the remainder of the programs.
- 7.4 The level of new funding to support the agency should be modest. In constant dollar terms it represents about 380 million. Of this amount 80 million would be a new requirement. The 300 million for joint programming should be logically found from the existing budgets of line departments. The purpose of joint programs is to make a government decision to support the third sector effective across the government so that different departments are not working at cross purposes. A marginal cut across departmental lines ("tax break" programs included) would create the fund and would therefore create a pool of dollars which departments could "win" back with innovative joint programs that supported the government's decision. It is consistent with the need for government to do more with the same level of spending.
- 7.5 Budget levels of less than the suggested amounts would not be successful in creating a joint program pool large enough to have a meaningful impact. Further analysis may suggest a larger pool of as much as double the initial recommendation.
- 7.6 The socio-economic research program would be funded through the planning and administration budget and the local research and development centres would be funded under the joint program budget.

INTERDEPARTMENTAL CONSIDERATIONS

- 8.1 One of the major benefits of joint programming of the type envisaged is that the government would be able to bend and tailor national programs to meet local needs through a flexible tool with strong channels for local involvement.

- 8.2 The proposal avoids setting up another central agency function where one department would review all other departments' proposals in order to ensure that they maintained certain policy directions. Instead, it would provide a realistic incentive for line departments to have their policies applicable to and supportive of co-operative and community groups.

CONCLUSION

- 9.1 The development of a strong independent Canadian economy demands the development of a strong and vibrant third sector composed of co-operative and community enterprises.
- 9.2 The need to integrate social, economic and cultural policy can best be met through programs to support decision-making at the community level.
- 9.3 The community and co-operative sectors are growing in Canada in spite of the centralizing economic environment and many government departments are recognizing the need for such institutions.
- 9.4 Institutions which make Canadians masters of their own destinies are necessary if we are to break the cycle of dependence and alienation which is currently strong in Canadian society.
- 9.5 The federal level must be active in support of community and co-operative initiatives if a climate is to be created which will be supportive of community and co-operative development and if central pressures are to be kept in balance.
- 9.6 An agency which would focus the efforts of all federal departments on community based development and deal with several specific program needs of the third sector would be a most useful addition to the federal government.
- 9.7 The fostering of community owned and controlled business is one positive way of fostering Canadian ownership and control of the economy.

RECOMMENDATIONS

- 10.1 That a Task Force be set up to prepare a memorandum to Cabinet and a discussion paper proposing a vehicle to support community and co-operative development with a mandate to:
- (A) Prepare the paper within six months.
 - (B) Hold extensive consultations with community and co-operative movements in all parts of the country in developing the Cabinet documents.
 - (C) That the Task Force start the Community and Co-operative Bank fund in conjunction with the community and co-operative movements.

- (D) That the Task Force identify expertise within and outside the government to provide the basis upon which the recommended agency can be built.

The Task Force should answer directly to a Minister, preferably a Minister whose full time responsibility it would be to develop the new agency.

10.2 The make up of such a Task Force and the process it follows are vitally important to its success. It will not be easy to develop a "responsive" rather than a "central planning" agency. No model presently exists. New and creative solutions need to be found. In order to have a reasonable chance of success the Task Force must:

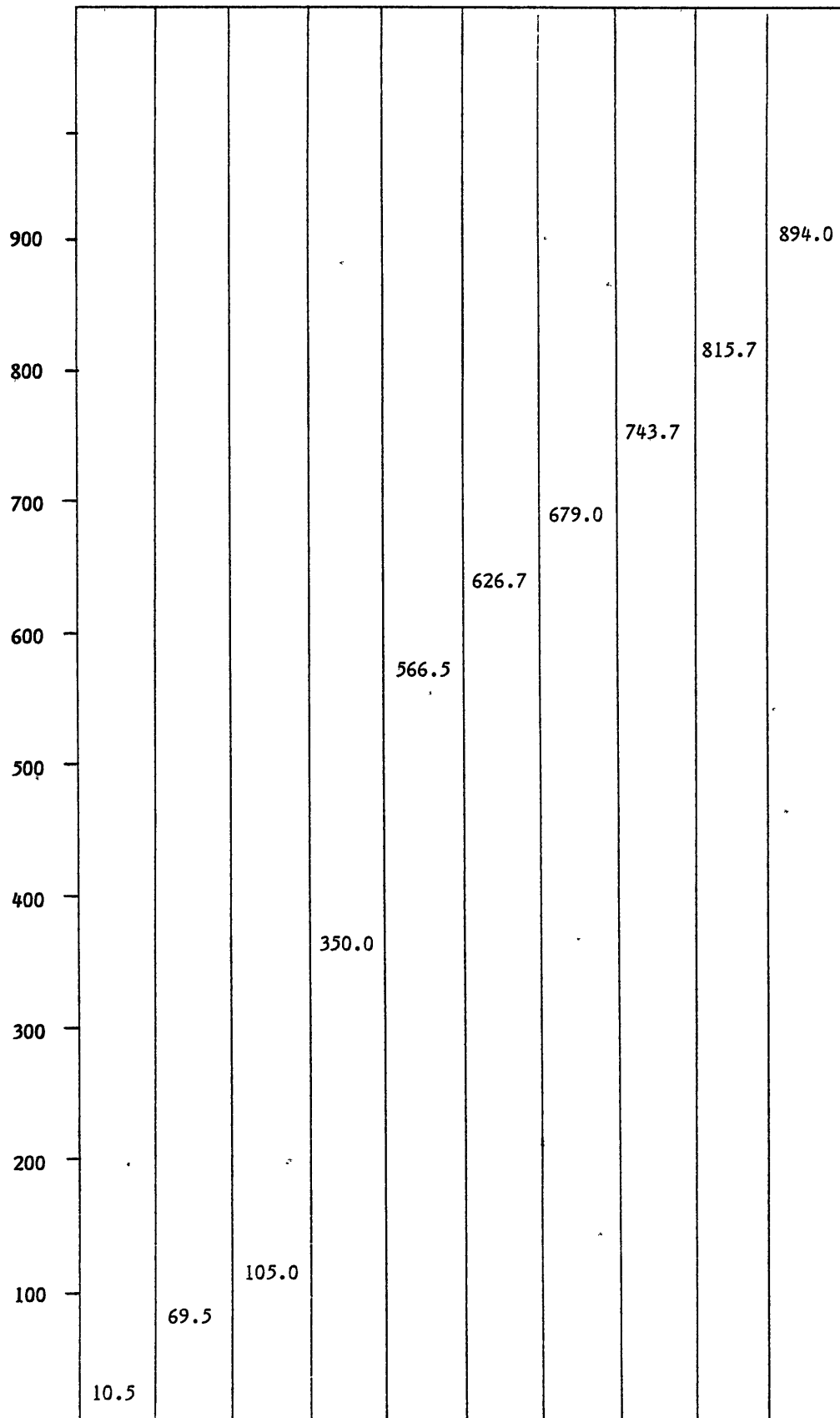
- (A) Be composed equally of federal officials, people from the co-operative movement, and persons involved in community-based socio-economic development.
- (B) Establish mechanisms to consult with groups across the country active in the co-operatives and community development.

Community and Co-operative Development Agency
10 Year Budget Forecast

ANNEX I

MILLIONS
\$

82-2 83-4 84-5 85-6 86-7 87-8 88-9 89-0 90-1 91-2



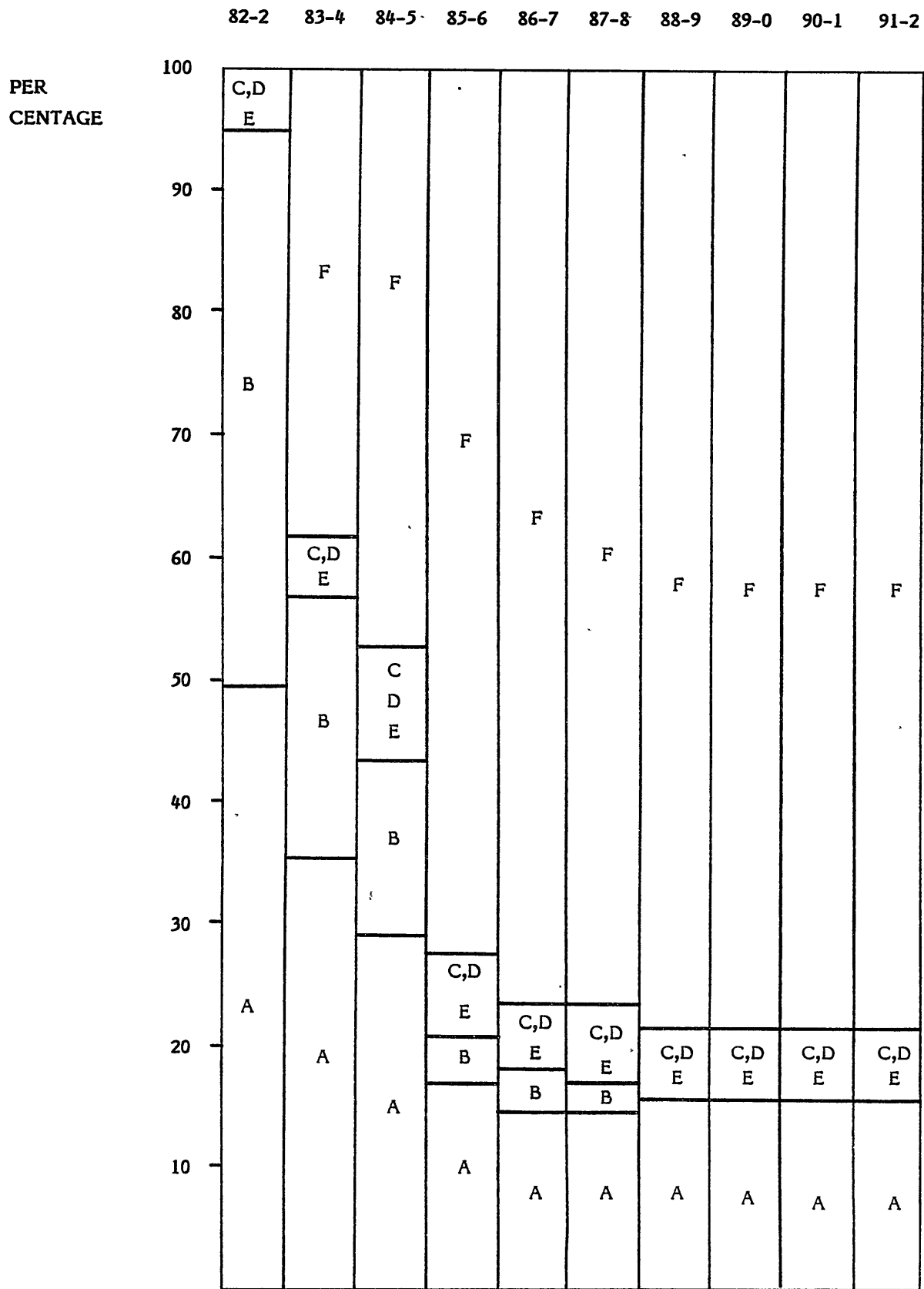
ANNEX II

Community and Co-operative Development Agency. Spending By Program - 10 Year Projection

	1982-3*	1983-4	1984-5	1985-6	1986-7	1987-8	1988-9	1989-90	1990-1	1991-2
Planning, Administration	5	25	30	60	80	90	100	110	121	133
Co-op Community Development Bank	5	15	15	15	15	10	-	-	-	-
Co-op Development Agency	.2	2	4	10	12	13.5	15	15	15	15
Community Development Support	.2	2	4	10	15	25	27.5	30.2	33.2	36.5
Co-op and Community Marketing	.1	.5	2	5.5	6.5	7.2	7.5	7.5	7.5	7.5
Joint Federal Support Programs	-	25	50	250	438	481	529	581	639	702
Totals	10.5	69.5	105.0	350.0	566.5	626.7	679.0	743.7	815.7	894.0

* This is the proposed Task Force Budget.

Percent Distribution of Budget by Program



A - PLANNING AND ADMIN
 B - CO-OP BANK
 C - CO-OP DEV AGENCY

D - COMMUNITY DEV SUPPORT
 E - COM/CO-OP MARKETING
 F - JOINT FED PROGRAMS